

TEACHERS' RETIREMENT BOARD

INVESTMENT COMMITTEE

SUBJECT: Alternative Investments -
Board Consultant Finalist Interview

ITEM NUMBER: 5

ATTACHMENT(S): 3

ACTION: X

DATE OF MEETING: June 5, 2002

INFORMATION: _____

PRESENTER(S): Réal Desrochers

The following information summarizes the Request for Proposal (RFP) process for the Alternative Investment Consultant from inception to date.

CalSTRS issued the RFP on February 8, 2002. There were 69 RFP downloads from the CalSTRS website from interested parties. As of the final filing date, April 5, 2002, eight proposals were received. All eight proposals passed the preliminary review for compliance with minimum qualifications and requirements and proceeded to the evaluation phase of the process.

The proposal questionnaire evaluation consisted of three parts. The first was to evaluate the organization strength of each proposer. The second part examined the proposer's global private equity experience. The final part related to the proposer's investment philosophy and process.

Six of the proposers evaluated received at least 105 points on the written proposal evaluation and proceeded to the fee schedule evaluation portion of the process. These six proposers were then identified as semi-finalists. Two of the semi-finalists passed the semi-final interviews and were identified as finalists. One of the successful finalists withdrew their proposal on May 9, 2002.

The successful contractor will be required to demonstrate compliance with contract participation goal requirement of 3% disabled veteran business enterprise prior to execution of the agreement.

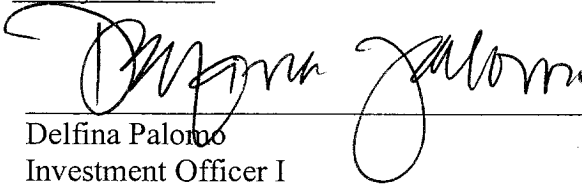
The services to be provided and minimum qualifications are included as Attachment 1, the company profile is provided as Attachment 2, and a proposed resolution is included as Attachment 3.

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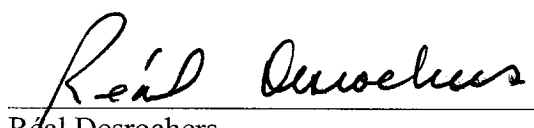
Prepared on: May 15, 2002

Prepared By:



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Review & Concur



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ALTERNATIVE INVESTMENT CONSULTANT

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CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM
REQUEST FOR PROPOSAL
ALTERNATIVE INVESTMENT CONSULTANT

SERVICES TO BE PROVIDED

Contractor will provide the following services in accordance with the Investment Resolution (Exhibit 1) adopted by the Board.

- A. Provide analysis and advice to the Investment Committee on industry and market trends, investment strategies, conditions, including positive and/or negative trends.

Monitor the performance of the AI portfolio partnership investments, co-investments and secondary interests and provide quarterly, semi-annual and annual performance review reports on both absolute and relative basis to the Investment Committee. Monitor aggregated portfolio to ensure that the program is managed according to policy. Monitor portfolio performance against the benchmark. and provide context on market trends/opportunities. Portfolio data will be provided from the Private Edge group.

- B. Maintain industry data, both domestic and international, sufficient in size and scope to allow an analysis of the returns of private equity partnerships and privately placed securities, diversified by size, industry, geography, type and stage of financing for use in strategic planning.
- C. Review and comment on the investment policy for the AI portfolio following discussion and analysis with staff.
- D. Review and comment on annual business plan and policies proposed by staff.
- E. Attend CalSTRS' Investment Committee and/or Board meetings or legislative hearings as requested by CalSTRS' Investment staff.
- F. Conduct a quarterly and semi-annual presentations on the Alternative Investments portfolio for the Investment Committee.
- G. Other services as may be required that are consistent with and contemplated by the foregoing.

Note: The consultant will not be involved in reviewing specific transactions.

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM
REQUEST FOR PROPOSAL
ALTERNATIVE INVESTMENT CONSULTANT

MINIMUM QUALIFICATIONS

The proposer must meet all of the following minimum qualifications to be given further consideration. Failure to satisfy each of the minimum qualifications will result in the immediate rejection of the proposal.

- A. As of October 31, 2001, the firm must have been in business at least three (3) years.
- B. The primary consultant and principal assistant that will be assigned to the CalSTRS account must each have at least three (3) years experience in developing alternative investment strategy services and providing alternative investment program monitoring services for institutional clients.

In addition to proposals from individual firms, CalSTRS will accept proposals from joint ventures. The joint venture parties together must satisfy all of the minimum qualifications and requirements to be considered for this assignment. If the proposer is a joint venture, the proposal must clearly define the responsibilities of each party in the joint venture and must provide evidence that each party understands and agrees to the provisions of the RFP and the proposed contract.

MCKINSEY & COMPANY COMPANY PROFILE

ORGANIZATION

McKinsey and Company (McKinsey), a Private Corporation, is a global management consulting. The firm has no head office, but 85 offices in 44 countries worldwide. McKinsey operates as one global entity led by its nearly 900 partners, who own the Firm.

McKinsey and Company, Inc. United States (a Delaware Corporation) is wholly owned by McKinsey Holdings Inc. (a Delaware corporation), which is in turn wholly owned by McKinsey & Company, Inc. (a New York Corporation). The shareholders of McKinsey & Company, Inc. are the approximately 900 “partners” of McKinsey worldwide.

McKinsey was founded in 1926. The core leadership team for CalSTRS includes Michael Bender, Director, Beth Cobert, Director, Melissa Ma, Associate Principal, and Andrea Kennedy, Engagement Manager. The team will draw upon their broader global leadership and involve their North American advisors and Global advisors to bring the best functional, geographic, and industry knowledge to bear on their work with CalSTRS.

PHILOSOPHY

McKinsey’s alternative investment philosophy is based on the same fundamentals as those that drive their investment philosophy for any other asset class. Investment strategies should be tailored for each institution, and should be based on the fit of the investments with the quantitative and qualitative goals of the organization, and with the organization’s resources.

McKinsey believes that the ultimate goal of an alternative investment portfolio should be to generate appropriate risk-adjusted return within the defined portfolio objectives. These portfolio objectives should define the specific risk profile of the portfolio, which is comprised of the risk appetite and return expectations for the portfolio, the need for liquidity and the investment time horizon.

Alternative assets provide most institutions with attractive investment opportunities. The source of this attractiveness is the broad array of investments available, with a wide variety of performance characteristics and organizational requirements. This variety means that most institutions should find at least one alternative sub-asset class that suits their objectives and capabilities.

CLIENTS

McKinsey has more than 1,000 clients worldwide include 100 of the largest 150 global companies, together with a diverse group of governments, institutions, and nonprofit organizations. McKinsey develops and maintains deep, specialized business and economic, industry, and functional knowledge, and they collaborate regularly with leading thinkers in business, government, and academia. The cornerstone of McKinsey's approach is their people. With over 7,600 consultants in 80 offices worldwide, McKinsey delivers client impact by leveraging access to this broad-reaching, powerful network of expertise.

McKinsey uses a comprehensive approach to helping their clients by uniquely combining five critical capabilities.

- ¶ **Industry expertise.** Maintain active, global industry practices in approximately 20 sectors, ranging from high tech, telecommunications, health care and biotechnology, to private equity and financial institutions. Each of these practices pursues independent research on many industry-related topics to ensure their experts provide the latest thinking.
- ¶ **Functional expertise.** In addition to their industry-based practices, McKinsey also has active functional practices in approximately 35 areas, such as strategy, organization, corporate finance, and operational effectiveness.
- ¶ **Geographic reach.** McKinsey has 85 offices in 44 countries throughout the Americas, Europe, Asia, and the Pacific. Through these offices, they have over 7,500 consultants and approximately 900 partners of 100 different nationalities.
- ¶ **Knowledge transfer.** In order to bring the best to bear for each of their clients, regardless of location or sector, McKinsey actively ensures knowledge transfer across their offices and across industries. The Firm is structured in this way to allow them to maximize their value to the client by aggregating and disseminating non-confidential insights gained from previous experiences, developing internal experts and specialists, and continually researching the latest trends and issues in each area. McKinsey's ability to leverage their firm knowledge base and expertise for the benefit of their clients is truly unparalleled.
- ¶ **Consulting approach.** Since their inception in 1926, McKinsey's primary mission has been to help their clients achieve substantial, lasting improvements in their performance. Their tailored, dedicated client teams deliver this impact by utilizing creative problem solving, disciplined fact-based analysis, and an emphasis on implementation.

MCKINSEY & COMPANY

STAFF BIOGRAPHIES

Michael W. Bender

Michael Bender is a Director in the San Francisco Office and has been with McKinsey & Company since 1989. He currently leads McKinsey's West Coast Financial Institutions Practice and has done significant work in retail banking, asset management, life insurance, property and casualty insurance, wholesale banking, and health care payment/provision. Michael is also a co-leader of McKinsey's North American Financial Institutions Information Technology and Operations Practice. Sample recent engagements include:

- Working with the California Employees' Public Retirement System, the largest pension fund and institutional manager in the U.S., to develop a new \$500 million initiative to invest in underdeveloped markets
- Advising a top 20 U.S. public pension fund on the development of its alternative investment strategy and performance of due diligence on potential strategic partnership transactions
- Evaluating the acquisition of a large U.S. multi-line P&C carrier for a U.S.-based investor group
- Developing a long-term mortgage banking strategy – across all functions – utilizing an economic value-added approach for a major U.S. bank
- Redesigning the top-team organization and management processes – e.g., planning/budgeting and people management – for a leading asset manager
- Evaluating the acquisition and growth of a primary care physician organization (“the McDonald's of Primary Care”) for a U.S.-based LBO firm
- Redesigning the top-team organization and management processes, e.g., strategy, setting, planning/budgeting and people management - for a leading asset manager
- Developing a strategy for a major retail asset manager to rapidly grow the institutional asset management market
- Identified potential buyers for a California-based thrift as well as valuation ranges for different buyers

Prior to joining McKinsey, Michael worked with Oliver, Wyman & Company, a New York based consulting firm focused on financial institutions. He holds an M.Phil in Economics from Oxford University, where he studied as a Marshall Scholar, and a B.A. in Economics from Harvard College.

Beth Cobert

Beth Cobert is a Director in McKinsey's San Francisco office. She joined the Firm in 1984 in New York and transferred to San Francisco in 1994. Beth has worked on a variety of strategic and organizational issues in the financial services, asset management and institutional investments arenas. Her recent assignments include:

- Working with a major institutional asset manager on their investment organization and investing approach to align it with their investment objectives and philosophy
- Assisting a major financial institution to assess their private equity investment approach including both direct investments and structured capital markets products (e.g., loan securitizations, CLOs, etc.)
- Helping several private equity firms assess specific investments-e.g., in the consumer retirement services markets, medical supplies, etc.
- Assisting a major securitizer of mortgage assets develop a risk management approach that addressed the growing size and complexity of their activities
- Working with a major investment bank to reshape their organization structure, governance processes, and people management approaches to fit their increasing focus on securitization and capital markets activities
- Assisting a major professional services firm develop a more effective organizational and strategic approach to drive higher performance

Beth is a leader of the Firm's North American Financial Services and Private Equity practices and heads up McKinsey's Institutional Investor sub-sector. Prior to joining McKinsey, Beth worked for Goldman, Sachs & Co. in their Corporate Finance Department. At Goldman Sachs she worked on a broad array of transactions including mergers and acquisitions, public offerings, and new product development. Beth received her M.B.A. in 1984 from Stanford Business School, where she was an Arjay Miller scholar and now serves on the Stanford Business School Management Council. She also holds a B.A. in Economics, Phi Beta Kappa, from Princeton University.

Melissa J. Ma

Melissa Ma is an Associate Principal in the San Francisco Office of McKinsey & Company. She is currently a leader of McKinsey's Institutional Investor Practice, the West Coast Financial Institutions Practice and the North American Private Equity Practice.

In her role at McKinsey, Melissa has served leading institutional investors and financial institutions on issues of strategy, organization, operations, investments, and corporate finance. Examples of her recent experience include:

- Working with one of the United States' largest pension funds and institutional manager to develop a new \$500 million initiative to invest in underdeveloped markets. She led the feasibility assessment, investment strategy planning, and the execution of the partner selection process
- Helping one of the largest U.S. public pensions develop their investment strategy for the alternatives asset class and perform due diligence on potential strategic partnership transactions
- Leading an effort at a leading North American pension fund to refine their overall private equity strategy, restructure their fund portfolio, and consider innovative partnership and fund options for future investments
- Assisting the membership of a premier investor association to "formalize" their organization. She led the effort to define their mission, board structure, financing plan, by-laws, and membership services
- Leading a yearlong effort to define the corporate strategy, she helped lead a series of teams that developed individual business initiatives across the bank

Before joining McKinsey, Ms. Ma was employed by Goldman, Sachs & Co. in New York. As a member of the Investment Banking division's Financial Institutions Group, she planned and executed financing and merger transactions for international banks, insurance, and finance companies.

Melissa received an M.B.A. with Distinction from Harvard Business School and holds a B.A. in economics and East Asian studies, *magna cum laude*, from Harvard University.

William F. Meehan III

William F. Meehan III is the Chairman of the West Coast practice of McKinsey & Company. During his 22 years with the Firm, Bill has had extensive experience working with chief executives and senior managers of a wide range of businesses including software and technology, retailing; energy, media and entertainment; private equity; and financial services; in New York, Asia Pacific, and the Western United States.

Bill has also worked extensively with senior executives on issues of top management organization and leadership; corporate and business unit strategy; post-merger management; operations/supply chain improvement; overall performance/profit improvement; and he has helped pioneer new approaches to applying information technology to solving high-impact business problems.

In addition to his service to clients, as Chairman of the West Coast practice he is the senior partner responsible for the Firm's activities in California, the Western United States, and Western Canada. He was formerly Managing Director of the San Francisco Office, serves on the Directors' Review Committee, the Firm's senior personnel committee, and co-Chairs the Firm's Venture Capital and Private Equity Practice. He is also a member of the Alternative Fee Arrangement Initiative. He has an M.B.A. from Stanford University and a B.A. in English and Comparative Literature from Columbia University.

Mr. Meehan is a member of the Board of Governors of the San Francisco Symphony; a member of the Board of Directors for the United Way of the Bay Area, where he is also Chairman of The Alexis de Tocqueville Society; a member of the Board of Philanthropic Research Incorporated, which through Guidestar.org is the preeminent information source on the nonprofit sector; a member of the Board for the Ashland Shakespeare Festival; and a member of the California Roundtable and the Committee on JOBS. In addition, he has extensive experience working with many nonprofit organizations in health care, education, arts, public television, and economic development; and is a Lecturer in Strategic Management at the Graduate School of Business at Stanford University, a faculty affiliate of the Center for Social Innovation, and a regular panel member at Stanford Law School's Board of Directors' College.

PROPOSED
RESOLUTION
OF THE
TEACHERS' RETIREMENT BOARD
INVESTMENT COMMITTEE

SUBJECT: ALTERNATIVE INVESTMENT CONSULTANT
Contract No.

RESOLUTION NO. _____

WHEREAS, the Board is responsible for managing the California State Teachers' Retirement Fund (Fund), a pension fund; and

WHEREAS, the Board has exclusive control of the investment of the Fund, pursuant to Education Code Section 22222; and

WHEREAS, the Board desires advisory expertise for the Alternative Investment Portfolio; and

WHEREAS, _____ has expertise in the field and is capable of performing such services; Therefore be it

RESOLVED, that the Board authorizes staff to execute a contractual agreement, upon negotiation of fees as directed by the Board, with _____ to provide the aforementioned services.

Adopted by:
Investment Committee
on _____

Ratified by
California State Teachers' Retirement Board
on _____

Jack Ehnes
Chief Executive Officer